

**REPORT OF THE AUDIT OF THE  
KNOX COUNTY  
CLERK**

**For The Year Ended  
December 31, 2008**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE KNOX COUNTY CLERK**

**For The Year Ended  
December 31, 2008**

The Auditor of Public Accounts has completed the Knox County Clerk's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$22,217 from the prior year, resulting in excess fees of \$298,823 as of December 31, 2008. Revenues decreased by \$168,839 from the prior year and expenditures decreased by \$146,622.

#### **Debt Obligations:**

Total debt principal as of December 31, 2008, was \$2,508. Future collections of \$2,725 are needed over the next 12 months to pay all debt principal and interest.

#### **Report Comment:**

- The County Clerk Should Pay Employees For Time Actually Worked Or Leave Balances Actually Earned

#### **Deposits:**

The County Clerk's deposits were insured and collateralized by bank securities.



## CONTENTS

PAGE

|   |    |
|---|----|
| INDEPENDENT AUDITOR'S REPORT .....  | 1  |
| STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS .....   | 3  |
| NOTES TO FINANCIAL STATEMENT .....  | 6  |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND<br>ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL<br>STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS ..... | 11 |
| COMMENT AND RECOMMENDATION .....  | 15 |





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable J.M. Hall, Knox County Judge/Executive  
The Honorable Mike Corey, Knox County Clerk  
Members of the Knox County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Knox County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 16, 2010 on our consideration of the Knox County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable J.M. Hall, Knox County Judge/Executive  
The Honorable Mike Corey, Knox County Clerk  
Members of the Knox County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk Should Pay Employees For Time Actually Worked Or Leave Balances Actually Earned

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Knox County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

February 16, 2010



KNOX COUNTY  
 MIKE COREY, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

|  |    |           |           |
|--|----|-----------|-----------|
| State Fees For Services                    | \$ | 12,540    |           |
| Fiscal Court                               |    |           | 7,965     |
| Licenses and Taxes:                        |    |           |           |
| Motor Vehicle-                             |    |           |           |
| Licenses and Transfers                     | \$ | 1,231,716 |           |
| Usage Tax                                  |    | 3,827,278 |           |
| Tangible Personal Property Tax             |    | 2,070,780 |           |
| Other-                                     |    |           |           |
| Fish and Game Licenses                     |    | 4,624     |           |
| Marriage Licenses                          |    | 9,656     |           |
| Occupational Licenses                      |    | 393       |           |
| Tax Liens                                  |    | 23,026    |           |
| Deed Transfer Tax                          |    | 37,385    |           |
| Delinquent Tax                             |    | 473,866   |           |
|  |    |           | 7,678,724 |
| Fees Collected for Services:               |    |           |           |
| Recordings-                                |    |           |           |
| Deeds, Easements and Contracts             |    | 16,158    |           |
| Real Estate Mortgages                      |    | 30,266    |           |
| Chattel Mortgages and Financing Statements |    | 92,452    |           |
| Powers of Attorney                         |    | 2,107     |           |
| Bail Bonds                                 |    | 2,596     |           |
| Fixture Filing                             |    | 433       |           |
| Leases                                     |    | 3,851     |           |
| Liens and Lis Pendens                      |    | 6,283     |           |
| Releases                                   |    | 8,996     |           |
| Wills and Estate Settlements               |    | 745       |           |
| Affordable Housing Trust Fund              |    | 31,518    |           |
| All Other Recordings                       |    | 12,396    |           |
| Charges for Other Services-                |    |           |           |
| Candidate Filing Fees                      |    | 590       |           |
| Copywork                                   |    | 19,315    |           |
|  |    |           | 227,706   |
| Other-                                     |    |           |           |
| Postage                                    |    | 778       |           |
| Refunds                                    |    | 19,674    |           |
| Miscellaneous                              |    | 2,095     |           |
|  |    |           | 22,547    |

The accompanying notes are an integral part of this financial statement.

KNOX COUNTY  
 MIKE COREY, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2008  
 (Continued)

Revenues (Continued):

|                 |    |           |
|-----------------|----|-----------|
| Interest Earned | \$ | 3,193     |
| Total Revenues  |    | 7,952,675 |

Expenditures

Payments to State:

Motor Vehicle-

|                                |    |           |
|--------------------------------|----|-----------|
| Licenses and Transfers         | \$ | 830,002   |
| Usage Tax                      |    | 3,712,326 |
| Tangible Personal Property Tax |    | 863,626   |

Licenses, Taxes, and Fees-

|                          |    |           |
|--------------------------|----|-----------|
| Fish and Game Licenses   |    | 4,624     |
| Delinquent Tax           |    | 61,948    |
| Legal Process Tax        |    | 29,372    |
| Affordable Housing Trust |    | 31,518    |
|                          | \$ | 5,533,416 |

Payments to Fiscal Court:

|                                |         |         |
|--------------------------------|---------|---------|
| Tangible Personal Property Tax | 184,596 |         |
| Delinquent Tax                 | 61,532  |         |
| Deed Transfer Tax              | 35,515  |         |
| Occupational Licenses          | 320     | 281,963 |

Payments to Other Districts:

|                                |         |           |
|--------------------------------|---------|-----------|
| Tangible Personal Property Tax | 940,703 |           |
| Delinquent Tax                 | 244,541 | 1,185,244 |

Payments to Sheriff 6,880

Payments to County Attorney 61,945

Operating Expenditures:

Personnel Services-

|                   |         |
|-------------------|---------|
| Deputies Salaries | 290,484 |
| Contract Labor    | 500     |

Employee Benefits-

|   |        |
|---|--------|
| Employer's Share Social Security and Retirement | 78,720 |
| Employer's Paid Health Insurance                | 32,606 |

The accompanying notes are an integral part of this financial statement.

KNOX COUNTY  
MIKE COREY, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2008  
(Continued)

Expenditures (Continued)

Operating Expenditures (Continued):

Employee Benefits- (Continued)

|                            |    |       |
|----------------------------|----|-------|
| Other Payroll Expenditures | \$ | 1,291 |
|----------------------------|----|-------|

Contracted Services-

|                  |  |        |
|------------------|--|--------|
| Office Equipment |  | 11,999 |
|------------------|--|--------|

|                      |  |        |
|----------------------|--|--------|
| Printing and Binding |  | 23,118 |
|----------------------|--|--------|

|                     |  |       |
|---------------------|--|-------|
| Accounting Services |  | 4,200 |
|---------------------|--|-------|

Supplies and Materials-

|                 |  |        |
|-----------------|--|--------|
| Office Supplies |  | 20,610 |
|-----------------|--|--------|

Other Charges-

|      |  |       |
|------|--|-------|
| Dues |  | 1,537 |
|------|--|-------|

|         |  |       |
|---------|--|-------|
| Postage |  | 7,323 |
|---------|--|-------|

|               |  |       |
|---------------|--|-------|
| Miscellaneous |  | 4,771 |
|---------------|--|-------|

|                     |  |     |
|---------------------|--|-----|
| Insurance and Bonds |  | 355 |
|---------------------|--|-----|

|         |  |        |
|---------|--|--------|
| Refunds |  | 18,898 |
|---------|--|--------|

|                                 |  |       |
|---------------------------------|--|-------|
| Uncollectible Bad Check Expense |  | 1,413 |
|---------------------------------|--|-------|

Debt Service:

|                                 |  |              |
|---------------------------------|--|--------------|
| Lease Purchases and Maintenance |  | <u>5,081</u> |
|---------------------------------|--|--------------|

|                    |  |    |           |
|--------------------|--|----|-----------|
| Total Expenditures |  | \$ | 7,572,354 |
|--------------------|--|----|-----------|

Less: Disallowed Expenditures

|                      |  |       |
|----------------------|--|-------|
| Payroll Expenditures |  | 8,437 |
|----------------------|--|-------|

|                           |  |       |
|---------------------------|--|-------|
| Employer Share Retirement |  | 1,139 |
|---------------------------|--|-------|

|                                |  |            |
|--------------------------------|--|------------|
| Employer Share Social Security |  | <u>645</u> |
|--------------------------------|--|------------|

|  |  |               |
|--|--|---------------|
|  |  | <u>10,221</u> |
|--|--|---------------|

Total Allowable Expenditures

|  |  |                  |
|--|--|------------------|
|  |  | <u>7,562,133</u> |
|--|--|------------------|

Net Revenues

|  |  |         |
|--|--|---------|
|  |  | 390,542 |
|--|--|---------|

Less: Statutory Maximum

|  |  |               |
|--|--|---------------|
|  |  | <u>84,594</u> |
|--|--|---------------|

Excess Fees

|  |  |         |
|--|--|---------|
|  |  | 305,948 |
|--|--|---------|

Less: Expense Allowance

|  |  |       |
|--|--|-------|
|  |  | 3,600 |
|--|--|-------|

|                            |  |              |
|----------------------------|--|--------------|
| Training Incentive Benefit |  | <u>3,525</u> |
|----------------------------|--|--------------|

|  |  |              |
|--|--|--------------|
|  |  | <u>7,125</u> |
|--|--|--------------|

Excess Fees Due County for 2008

|  |  |         |
|--|--|---------|
|  |  | 298,823 |
|--|--|---------|

Payments to Fiscal Court - March 10, 2009

|  |  |                |
|--|--|----------------|
|  |  | <u>288,602</u> |
|--|--|----------------|

Balance Due Fiscal Court at Completion of Audit

|  |  |           |               |
|--|--|-----------|---------------|
|  |  | <u>\$</u> | <u>10,221</u> |
|--|--|-----------|---------------|

*Note: The County Clerk submitted personal funds of \$10,221 to the Knox County Fiscal Court.*

The accompanying notes are an integral part of this financial statement.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2008  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Knox County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Knox County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2008  
(Continued)

Note 4. Leases

The Knox County Clerk's office was committed to the following lease agreements as of December 31, 2008:

| Item<br>Purchased | Monthly<br>Payment | Term Of<br>Agreement | Ending<br>Date | Principal<br>Balance<br>December 31,<br>2008 |
|-------------------|--------------------|----------------------|----------------|--|
| Copy Machine      | \$ 137             | 60 Months            | 06-31-2009     | \$ 791                                       |
| Postage Machine   | \$ 160             | 51 Months            | 12/31/2009     | \$ 1,717                                     |

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable J.M. Hall, Knox County Judge/Executive  
The Honorable Mike Corey, Knox County Clerk  
Members of the Knox County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Knox County Clerk for the year ended December 31, 2008, and have issued our report thereon dated February 16, 2010. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Knox County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Knox County Clerk's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Clerk Should Pay Employees For Time Actually Worked Or Leave Balances Actually Earned

This report is intended solely for the information and use of management, the Knox County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

February 16, 2010

COMMENT AND RECOMMENDATION



KNOX COUNTY  
MIKE COREY, COUNTY CLERK  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2008

STATE LAWS AND REGULATIONS:

The County Clerk Should Pay Employees For Time Actually Worked Or Leave Balances Actually Earned

---

The County Clerk previously brought to auditors' attention that there may be an issue regarding payroll payments to a deputy clerk. Upon arrival to perform the audit, we reviewed all employee time sheets and check stubs during the test of payroll. We found that one employee received her full salary each week, even though she did not work all weeks nor did she have enough leave balances to take paid leave. The employee had thirteen (13) blank timesheets plus seven (7) time sheets that listed sick and vacation hours for calendar years 2009 and 2010; which was for time not yet earned. The employee received payments for 240 hours of future sick and vacation time (7 timesheets) plus 466 hours (13 timesheets) unidentified time for a total of 706 hours or \$8,437. Additionally, the County Clerk paid the employer share of retirement (\$1,139) and the employer share of social security (\$645) on the wages listed above. The County Clerk should not have paid the employee for unearned leave and the employee should have been on unpaid leave. Had the employee been placed on unpaid leave, the employer matching amounts would not have been paid.

The County Clerk's personnel policy states that leave without pay may be granted in emergencies once earned sick and vacation time has been exhausted. Additionally, KRS 337.320(1) requires every employer to keep a record of the amount paid each pay period to each employee; the hours worked each day and each week by each employee; and other information as the executive director requires.

We recommend that any employee earning full-time salary and benefits who works less than a full workweek be required to use earned leave time or be placed on leave without pay. No public employee should be paid for time not actually worked unless accumulated leave time is charged. Since an employee cannot be paid for leave not yet earned or for services not rendered, this expense is deemed disallowed and subject to reimbursement by the County Clerk. Therefore, we recommend the County Clerk submit personal funds totaling \$10,221 to the Knox Fiscal Court, which ultimately becomes excess fees.

*County Clerk's Response: An employee was faced with a severe medical hardship. I did what I had to do and I have repaid with personal funds.*

